

BEFORE THE IDAHO BOARD OF TAX APPEALS

IN THE MATTER OF THE APPEAL OF IDAHLINE) APPEAL NO. 07-A-2486
APARTMENTS, LLC from the decision of the Board)
of Equalization of Kootenai County for tax year 2007.) FINAL DECISION
) AND ORDER

COMMERCIAL PROPERTY APPEAL

THIS MATTER came on for hearing November 27, 2007 in Coeur d'Alene, Idaho before Board Member Linda S. Pike. Board Members Lyle R. Cobbs and David E. Kinghorn participated in this decision. Owner Mike MacRae appeared at hearing for Appellant Idahline Apartments, LLC . Chief Deputy Assessor Richard Houser and Commercial Appraiser Louise Weed appeared for Respondent Kootenai County. This appeal is taken from a decision of the Kootenai County Board of Equalization denying the protest of the valuation for taxing purposes of property described as Parcel No. P390005022AC.

The issue on appeal is the market value of a an apartment complex.

The decision of the Kootenai County Board of Equalization is modified.

FINDINGS OF FACT

The subject's assessed land value is \$718,411, and the improvements' valuation is \$3,813,650, totaling \$4,532,061. Appellant requests the total value be reduced to \$3,700,000.

The subject property is a relatively large 72-unit market-rent apartment complex built in 1994. The unit mix includes one- and two-bedroom units in three (3) buildings. Land size is 3.665 acres. The location is in West Post Falls. The Assessor described the subject apartments as well maintained and classified them as above-average.

Appellant presents a February 2005 independent fee appraisal on the subject property. The appraisal valued the "leased fee interest" and considered an income approach to value that

came in at \$3,250,000. The somewhat higher value claim is opined to fairly represent a reasonable appreciation adjustment for the older appraisal date. Appellant further contends the Assessor's calculations of market rent for subject are overstated resulting in an over-assessment.

The Board notes Mr. MacRae has considerable experience in apartment management and has been the manager of the subject apartments for several years. He contends the actual rents being realized from subject are the best possible and also reflect the best evidence of market rent. The county determination of market rent was based on a comparison of other apartment rents. Appellant noted these apartments were not particularly similar to subject and consequently would require adjustments to reflect the differences. It was argued if subject's rents were increased anymore the complex would be vacant. Present tenant turnover is about 40-45% per year. Appellant further contended the averaging in the Assessor's valuation model would not accurately represent the subject property.

Respondent began by describing the subject property, its location, and the countywide apartment revaluation completed for the 2007 tax year. All three (3) approaches to value were considered with primary emphasis placed on the income approach to value. In fact the value from that indicator was used as the value for assessment purposes. A fairly detailed appraisal report was presented listing data collected and related appraisal analysis.

The Assessor's income modeling estimated subject's annual, potential market rent at \$515,280. This figure was referred to as potential gross income (PGI). From PGI a deduction was allowed for vacancy and rent loss at \$15,458 (3%). The resulting \$499,822 was referred to as effective gross income (EGI). Appellant reports and documents that subject's actual effective gross income was \$459,058. A deduction of \$149,946 (30%) for expenses determined

a net income of \$349,875. The net income was capitalized (converted) into a value indication of \$4,532,061 – the assessed value.

Reportedly the Assessor's allowed expenses were increased after an initial estimation to account for subject's actual performance. Appellant reports with one more change, i.e. substituting actual rent income (after vacancy and rent loss; \$459,058) in place of the Assessor's EGI, yields a value indication of \$4,295,520.

Subject's assessment equates to an average of \$62,945 per unit. Twelve apartment complex sales, occurring from 2004 through 2006, indicated a median price per unit of \$65,611. The median size for the 12 sales was 13.5 units. Market value estimated by the cost approach was \$4,326,380. Appellant alleges apartment sale prices should be adjusted for financing terms before appraisal analysis occurs. However taxpayer offered no such adjustments for the sales included in the County's case.

Appellant provided information on a 3.66-acre land sale in November 2006 across the street from subject. The sale price was \$465,000. The site was eventually developed with a tax credit apartment complex. Considering the indicated price per acre, it was asserted the subject land should be valued at \$357,391 versus the assessed rate of \$718,411. Respondent noted the assessed land value included a number of high priced site improvements. The County reported as one example where the site referenced by Appellant was required to pay sewer hookup/impact fees of \$4,200 per unit. Appellant made no adjustment for typical site improvements including hookup and development impact fees.

Both parties submitted exhibit materials closely corresponding to the oral presentations.

CONCLUSIONS OF LAW

This Board's goal in its hearings is the acquisition of sufficient, accurate evidence to

support a determination of fair market value. This Board, giving full opportunity for all arguments and having considered all testimony and documentary evidence submitted by the parties in support of their respective positions, hereby enters the following.

The fee appraisal evidence submitted by Appellant was dated among other problems. The apartment sale evidence indicates significant price appreciation in recent years. Taxpayer's effort to "time-adjust" the older appraisal wasn't deemed helpful or particularly meaningful. The fee appraisal simply wasn't near as relevant as other value evidence present in the record. The testimony of Mr. MacRae regarding apartment appraisal considerations and subject's financial performance was deemed relevant and important to the question of subject's current market value.

Appellant presented accurate financial information regarding subject's actual rent receipts. The Board was persuaded by the accompanying testimony that to increase rents further would result in significant vacancy, certainly far more than the roughly 3% allowed in the Assessor's income approach modeling. The County's market rent analysis was not found to be highly reliable or accurate pertaining to the subject property. Certainly the rent comparables considered were not so similar as to indicate subject's actual performance should be disregarded. Under the circumstances, we hold primary consideration in estimating subject's effective gross income should be given the actual performance. As calculated by Appellant this would yield a value by the County's income approach of about \$4,295,000.

Placing sole consideration on the income approach may be good for overall equity in apartment assessments. The Board's objective here is to focus on subject's fair market value. Idaho Code § 63-205(1). In incorporating other indications of value, albeit on a lesser consideration than that given to the income approach indicator, we hold a final value of

\$4,275,000 is warranted. This figure gives a small consideration to the Assessor's cost approach value and somewhat more consideration to the price per unit indicated by the larger apartment sales.

Given certain limitations in the County's income modeling, for instance as articulated by Appellant with the inherent averaging and lack of highly comparable properties, the Board feels more weight should be given to a direct comparison to the comparable sale's indicated prices per unit. In so doing, the Board finds some consideration of prices on the 2006 sales should be done without time-adjustment. The Board will not present a precise calculation in this regard, however we do note the income approach value of \$4,295,000 should in our judgment be rounded down. The result is a final determination of subject's market value of \$4,275,000, or close to \$60,000 per unit.

For the reasons expressed above, the Board will modify the decision of the Kootenai County Board of Equalization.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Kootenai County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect a decrease in total value to \$4,275,000. The indicated decrease in assessed value should be understood to apply to the improvement's value.

IT IS FURTHER ORDERED that any taxes which have been paid in excess of those determined to have been due be refunded or applied against other *ad valorem* taxes due from Appellant.

MAILED April 3, 2008